a PE perspective and Australian corporate earnings may be insufficient to fully justify recent re-ratings of some stocks/sectors.

We anticipate softness in the Australian Market to persist through January'14 and early February'14, with a more significant pull-back in equity markets (here and in the US) in March'14. Based on the charts, the early part of the second half of the year (June/July) could also be challenging.

As a consequence of this view (ie short term volatility – medium term positive) we wouldn't necessarily be looking to commit additional funds into equity markets at this time (outside of specifically targeted stocks). After March, there may well be more attractive buying opportunities both here and abroad.

ASSET ALLOCATIONS

We are looking to position client portfolios as follows:

- **Australian Equities (Neutral):** We remain cautiously constructive on Australian stocks, particularly as we move into the second half of 2013. However, in the short term, we see the potential for some level of retracement.
- **Global Equities (Neutral):** The PE dynamic outlined above, together with technical analysis, looks set to deliver a pull back in the first quarter. However, medium term growth and earnings prospects remain positive.
- **Property (Underweight):** Listed Property has benefited from the flight to yield, but now appears to be in a correction phase as investors consider higher growth sectors.
- **Fixed Interest (Neutral):** Listed income securities continue to be an attractive fixed interest investment. Given the level of interest rates, it is preferable to hold a little less cash and a little more in income securities as part of any defensive allocation in portfolios.
- **Cash (Slightly Overweight):** As a result of our positions in other asset classes, cash is presently slightly overweight.

Regards

Andrew & Stephen
26 January 2014